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June 13, 2005

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.  
Director and Chief Medical Officer

A handwritten signature in black ink, appearing to read "Thomas L. Garthwaite", is written over the printed name and title.

SUBJECT: **1115 WAIVER SUMMARY REPORT: 1995-2005**

Attached is a summary of key accomplishments that the County has made in meeting the goals of the 1115 Waiver Demonstration Project. A more detailed review will be submitted later this year to fulfill the requirement for a final report outlined in the terms and conditions of the waiver extension.

As described in the attached document, the County has made significant progress over the 10 years of the waiver in expanding access to primary care services, reducing the emphasis on expensive, hospital-based care, and improving system integration and coordination. Some of the new services and initiatives developed as a direct result of waiver funding include:

- The Public/Private Partnership Program (PPP), a network of 54 private providers and community clinic agencies that provide ambulatory care services to low-income, uninsured county residents at more than 100 sites on a contract basis.
- Clinical Resource Management, which has established inpatient clinical pathways and targeted disease management programs.
- A simplified eligibility determination process for receiving reduced-cost care at county outpatient facilities (Outpatient Reduced-cost Simplified Application, or ORSA).
- A centralized data collection process, which has improved department-wide planning and management.
- The Workforce Development Program, a partnership between DHS and the Service Employees International Union (SEIU) Local 660 that provides opportunities for DHS employees (represented by SEIU) to receive additional job-related training and education.

The Department intends to distribute the attached summary to stakeholders and policymakers. If you have any questions or need additional information, please contact me.

TLG:jh

C: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

# **THE LOS ANGELES COUNTY MEDICAID DEMONSTRATION PROJECT (1115 WAIVER)**



## **STABILIZING THE COUNTY'S SAFETY NET: 1995-2005**

# THE PRE-WAIVER FINANCIAL CRISIS

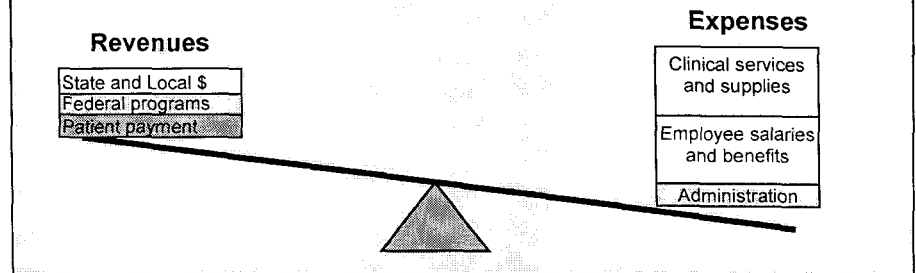
## **Factors contributing to the 1995 financial health crisis:**

In fiscal year 1995-96, the County faced a \$655 million deficit in its health care budget due to a number of factors, including:

- ▶ **Declining federal and state revenues:** In 1995, county hospitals faced substantial reductions in Medi-Cal revenue due to changes in federal reimbursement policy. In addition, local property tax revenue was shifted to the State in the early 1990s, further reducing available funding for counties as tax dollars were used to address budget shortfalls at the State level.
- ▶ **Influx of managed care:** The expansion of managed care in the mid-1990s, along with an increasingly competitive health care marketplace, resulted in a significant shift of paying patients from public providers to private hospitals and physicians.
- ▶ **Increasing costs:** The cost of providing medical care increased by a minimum of five percent annually in the late 1980s and early 1990s due to medical advances, increasing demand for services, new regulatory requirements, and other factors.
- ▶ **Strong disincentives to reduce inpatient hospital costs:** Federal funding streams were, and continue to be, tied to inpatient hospital expenditures. These antiquated funding rules discourage common efficiency improvements that could cut costs by reducing the length of hospital stays or through transferring certain procedures to a more cost-effective outpatient setting.
- ▶ **Difficulty in raising local revenues:** California counties have limited ability to create new, or increase existing, tax revenues due to 1978 voter-imposed restrictions on local property taxes (Proposition 13).
- ▶ **Large uninsured population:** Almost one third of all children and adults (2.7 million residents) in Los Angeles County were uninsured in 1995; a higher rate of uninsured than any other California county or major metropolitan area in the United States.

- ▶ **High poverty rate:** In 1995, more than two million children and adults in Los Angeles County, or 23 percent of all residents, were living in poverty – a rate 64 percent higher than the national poverty rate at the time.

## **The Financial Balancing Act Required for DHS Survival: REVENUES must be $\geq$ than EXPENSES**



## **Proposed solutions to the Department of Health Services' (DHS) \$655 million budget deficit:**

A number of options for balancing the health care budget deficit were proposed in the year preceding the waiver. The County's Chief Administrative Office recommended that DHS, either:

- ▶ Close the largest County hospital, four comprehensive health centers, and 25 health centers, or
- ▶ Close four of the six County hospitals (the largest hospital would remain open), all six comprehensive health centers, and 19 health centers.

A Health Crisis Task Force, appointed by the Board of Supervisors to further examine the situation and offer alternatives, recommended that the County seek additional federal funding by applying for a Medicaid Demonstration Project. If additional money was not obtained, the task force identified a third option that did not require closure of a County hospital:

- ▶ Close all six comprehensive health centers, reduce funding for outpatient hospital services by 75 percent, and close 29 health centers.

# THE LOS ANGELES COUNTY MEDICAID DEMONSTRATION PROJECT

A Medicaid Demonstration Project, or "1115 Waiver," refers to Section 1115 of the federal Social Security Act, which allows the Secretary of Health and Human Services to waive certain provisions of Medicaid law for demonstration projects that promote the objectives of the Medicaid program.

## The Medicaid Demonstration Project: Fiscal Relief Plus Opportunity for Reform

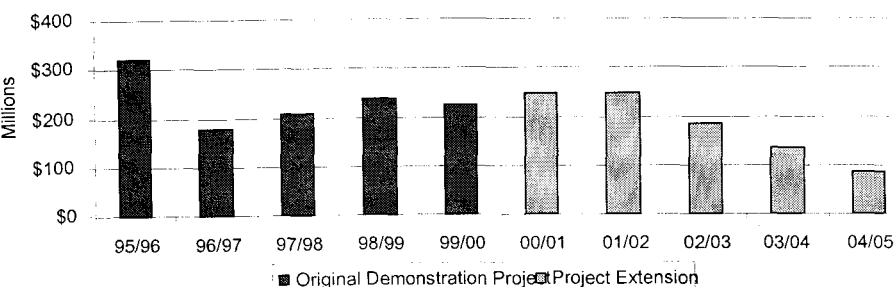
In 1995, the federal government approved a Medicaid Demonstration Project, or 1115 waiver, for Los Angeles County. The additional funding helped reduce a significant health care budget deficit caused by unstable financing and other factors beyond the County's control. It also enabled DHS to undergo a large scale restructuring process that would transform the system from a loose network of hospitals providing emergency-driven services to a more integrated and balanced health care delivery system emphasizing primary care and prevention.

### Goals of the 1115 Waiver:

1. Stabilize safety net financing
2. Expand access to outpatient services
3. Reduce costs and increase efficiency
4. Integrate the system of care

The County achieved many of its goals in the first five years of the waiver and a waiver extension was granted in 2000 to allow for continued restructuring of the health system. The funding has been gradually phased out under the extension and will end on July 1, 2005.

### Federal Funds Received by Los Angeles County Through the 1115 Waiver and Waiver Extension



Source: Los Angeles County, Department of Health Services, Controller's Division, May 2005

## Services that may not have been provided without the waiver:

Most of the proposed closures were averted after it seemed likely that an 1115 waiver would be approved. However, if additional funds had not been obtained and the 1995 Health Crisis Task Force recommendations implemented, DHS would not have been able to provide the following services:

- ▶ **14 million specialty and other ambulatory care visits** in the county's six comprehensive health centers (1995-2005), and
- ▶ **27 million outpatient hospital visits** (75 percent of all hospital outpatient visits in 1995-2005).

## New services and initiatives developed as a direct result of the waiver funding (1995-2005):

The waiver required DHS to expand services and initiate new projects to improve the efficiency and quality of services, including:

- ▶ **11 million primary care visits** for low-income, uninsured patients through the Public/Private Partnership (PPP) program; and
- ▶ **Numerous new initiatives**, including:
  - Clinical Resource Management, which has established inpatient clinical pathways and targeted disease management programs;
  - A simplified eligibility determination process for receiving reduced-cost care at county outpatient facilities through creation of the Outpatient Reduced-cost Simplified Application, or ORSA;
  - A centralized data collection process, which has improved department-wide planning and management; and
  - The Workforce Development Program, a partnership between DHS and the Service Employees International Union (SEIU) Local 660 that provides opportunities for DHS employees represented by SEIU to receive additional job-related training and education.

## GOAL 1: STABILIZE SAFETY NET FINANCING

*The Waiver funds allowed the Department of Health Services to continue to provide needed health care services to approximately 500,000 uninsured County residents annually.*

### Waiver Accomplishments Related to Financial Stabilization: 1995-2005



#### **Provided immediate fiscal relief to stabilize the county health care system and enable system-wide reforms**

The 1115 waiver brought \$2.1 billion in federal funds to Los Angeles County over 10 years. The federal investment:

- Enabled the County to provide 52 million outpatient visits that would not have been provided otherwise by: (1) preventing significant downsizing of hospital outpatient clinics and closure of the county's six comprehensive health centers, and (2) expanding primary care services through the PPP program.



#### **Improved long-term safety net financing**

Over the past 10 years, Los Angeles County has:

- Assisted 13 community clinic partners (PPPs) in obtaining Federally Qualified Health Center (FQHC) status, or similar designation (FQHC Look-Alike status), which allows for higher reimbursement for services provided to low-income residents. The County's six comprehensive health centers, and the multi-service ambulatory care center in the Antelope Valley, are also expected to be approved for FQHC Look-Alike designation, with enhanced reimbursement, within the next year.
- Increased outreach and enrollment in other available health care programs. The number of Los Angeles County residents enrolled in Medi-Cal, a federal and state-funded health care program for certain uninsured, low-income populations, has more than doubled in the past 10 years from 600,000 in 1995 to almost 1.4 million in 2005.

While DHS has taken many steps to improve the financing of its health system, long-term stability has not been achieved due to the nature of the population served and the continuation of federal funding policies favoring inpatient care:

- The DHS patient population is extremely transient. Unlike a traditional managed care system, where patients remain in the system for many years, most DHS patients access the system on an episodic basis. DHS has a 60 percent patient turnover rate, compared to ten to 30 percent in the private sector.
- Federal reimbursement continues to be tied to inpatient care. While waiver financing partially offset the financial disincentives to expand outpatient services and reduce inefficient inpatient practices, in the long term, it will be difficult for the County to sustain reforms accomplished under the waiver if federal funding rules are not changed.

#### COMMUNITY SERVICES PROVIDED BY DHS

- **Access to health care:** DHS provides access to health care services to approximately 750,000 unique patients annually, 70 percent of whom have no other source of health care coverage. (DHS Patient Profiles FY 02-03)
- **Hospital services:** DHS provides 84 percent of uncompensated hospital costs for the uninsured countywide. (Office of Statewide Health Planning & Development, 2003 Hospital Financial Reports)
- **Emergency services:** DHS provides 35 percent of the uninsured (self-pay) Emergency Department visits countywide. (National Health Foundation, fourth quarter 2004)
- **Trauma services:** DHS hospitals provide 45 percent of all hospital trauma visits countywide (DHS Emergency Medical services, 2004).
- **Public health services:** DHS provides public health services to prevent disease and protect and promote health for the general community, including controlling the spread of communicable diseases, such as HIV and tuberculosis, and preparing and implementing action plans to minimize the health consequences from natural disasters or acts of terrorism.

## GOAL 2: EXPAND ACCESS TO OUTPATIENT SERVICES

*Uninsured, low-income residents have improved access to needed preventive and primary care services in Los Angeles County.*

### Waiver Accomplishments Related to Primary Care Access: 1995-2005

#### ☒ Improved access to primary care services through the Public/Private Partnership Program

*The PPP Program is a network 54 private providers and community clinic agencies that provide ambulatory care services to low-income, uninsured county residents at more than 100 sites on a contract basis.*

In partnership with PPP providers, DHS has:

- ▶ Tripled the number of primary care access points countywide (see chart on following page).
- ▶ Improved geographic access to services through strategic partnering with PPP clinics located in areas of high need. For example, in the South Service Planning Area (SPA 6) around King/Drew Medical Center, primary care access points have more than doubled from six DHS-owned clinics in 1994 to a total of 19 DHS and PPP clinics in 2005.
- ▶ Improved outpatient care and management of patients with chronic conditions. At least 30 PPP agencies have implemented diabetes management programs at one or more of their clinics.

#### ☒ Increased emphasis on primary care and preventive services

- ▶ The proportion of DHS visits (including PPP) provided in a community-based, versus hospital, setting has increased by 16 percent.

#### DHS OUTPATIENT SERVICES FISCAL YEAR 1994-95

**Service sites:** 51 total

- 39 county health centers
- 6 comprehensive health centers
- 6 hospitals offering outpatient services

**Total outpatient visits:** 2.58 million\*

*\*The definition of a "visit" has changed since 1994/1995. Pre-waiver visit counts may include some nurse-only visits not counted in subsequent years.*

**Proportion of total DHS visits provided in a non-hospital setting:** 42%

#### DHS/PPP/DMH OUTPATIENT SERVICES FISCAL YEAR 2004-05 (estimated)

**Service sites:** 146 total

- 126 PPP sites
- 10 DHS personal health centers
- 6 comprehensive health centers
- 1 multi-service ambulatory care center
- 5 hospitals offering outpatient services

**Total outpatient visits:** 2.60 million DHS/PPP visits (3 million before 2002 department-wide cuts) plus 1.7 million mental health visits\*

*\* Mental health visit data is from FY 03-04. These visits were provided by the Department of Mental Health (DMH) or community contractors.*

**Proportion of total DHS visits provided in a non-hospital setting:** 49%

#### CHALLENGES:

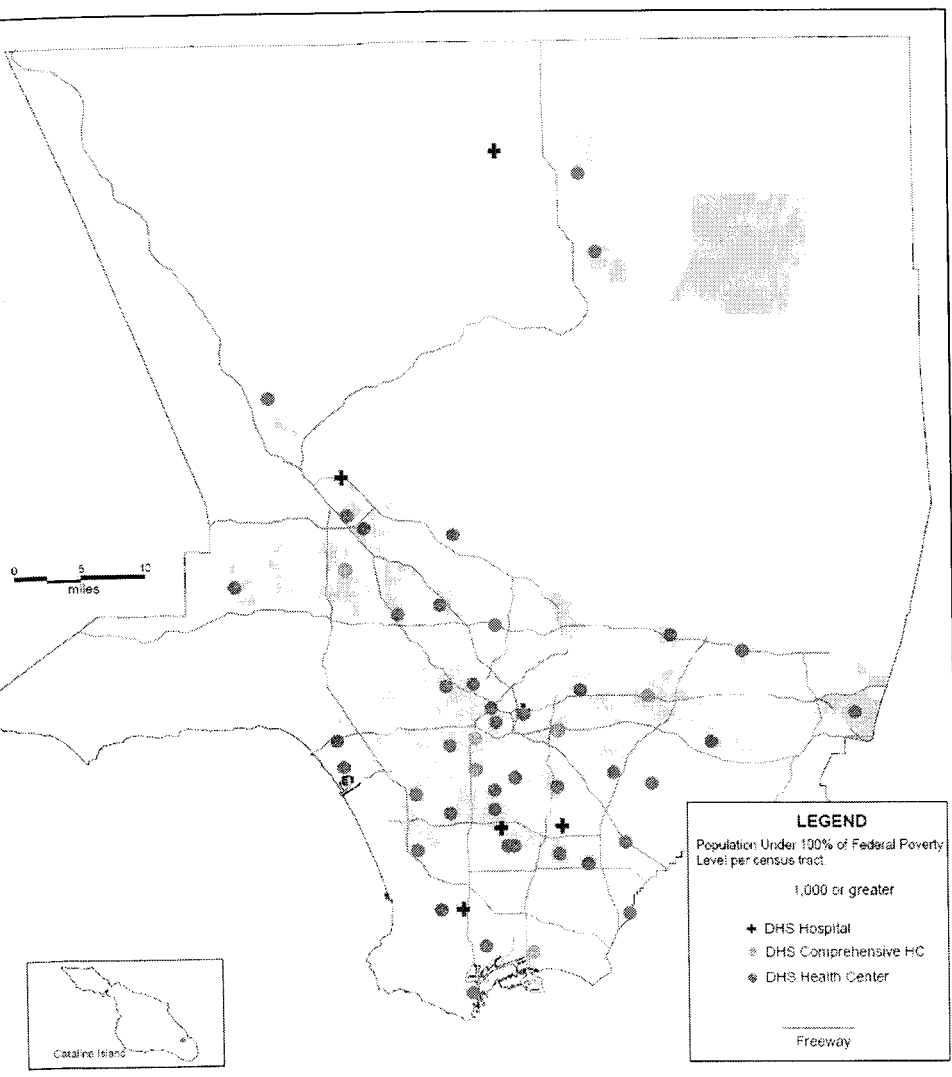
Lack of capacity at DHS facilities to accommodate increasing demand for specialty care services.

Federal reimbursement policy continues to favor inpatient care.

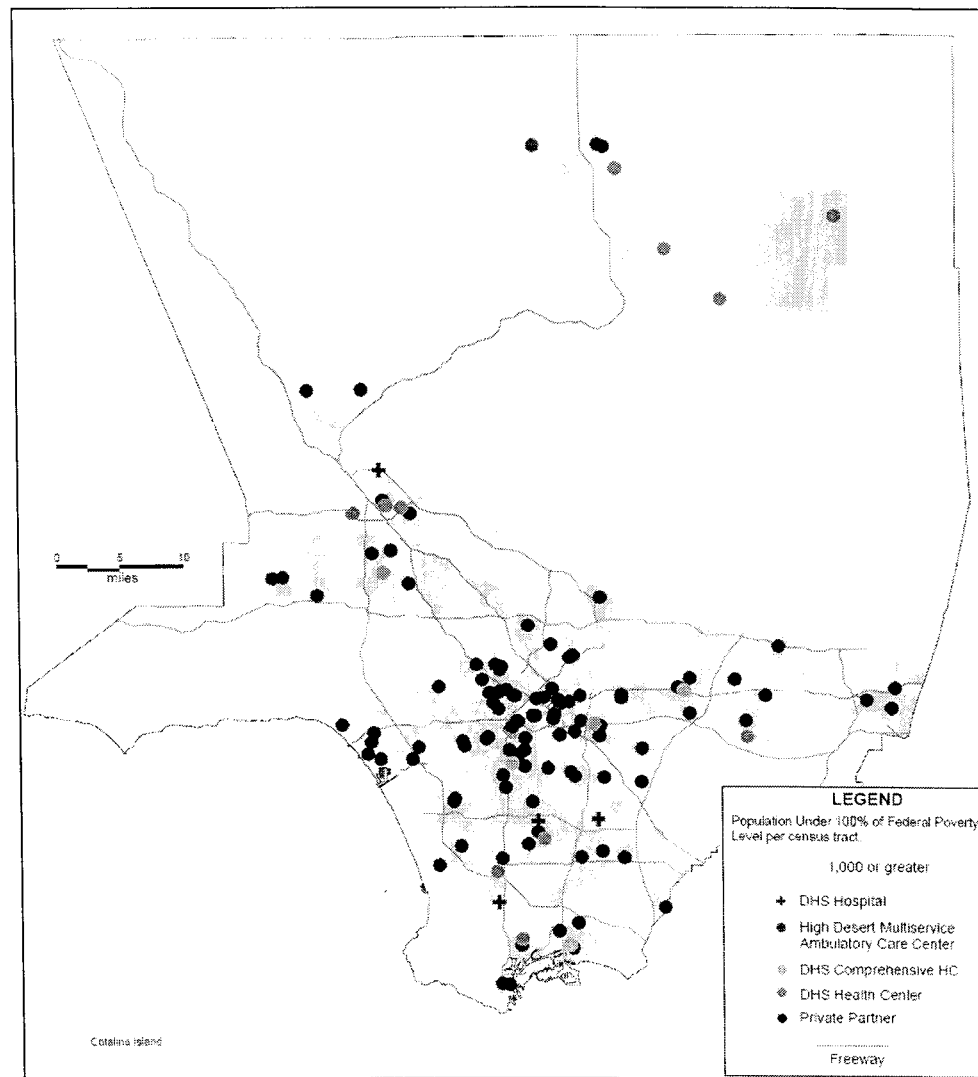
## GOAL 2: EXPAND ACCESS TO OUTPATIENT SERVICES

### Los Angeles County DHS Outpatient Facility Locations

PRE-WAIVER: YEAR 1994



POST-WAIVER: YEAR 2005



## GOAL 3: REDUCE COSTS & INCREASE EFFICIENCY

*The Los Angeles County hospital system is smaller and more efficient than 10 years ago.*

### Waiver Accomplishments Related to Cost Reductions: 1995-2005

#### **Decreased the emphasis on expensive, inpatient hospital care**

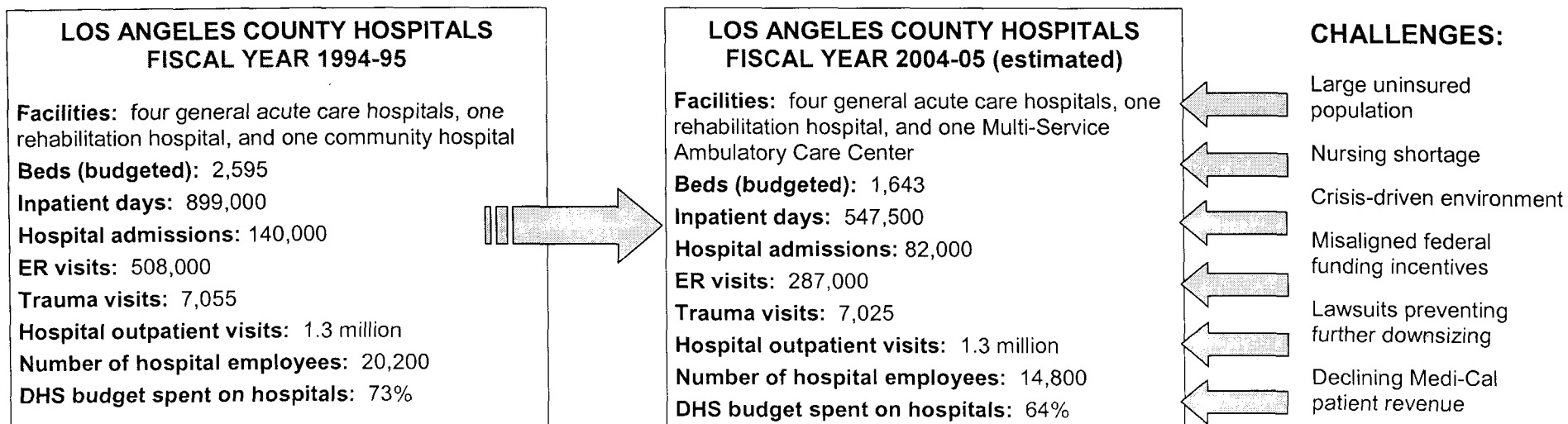
Since 1995, the Los Angeles County Department of Health Services has:

- ▶ Reduced the number of inpatient days and budgeted hospital beds at DHS facilities by more than one-third (39 percent).
- ▶ Shifted expenses from inpatient to outpatient care so that hospital inpatient costs account for a significantly smaller proportion of the County's total health care budget.

#### **Improved the operational efficiency at County hospitals**

Los Angeles County hospitals are more efficient than many California hospitals. The cost per patient-day at DHS' four teaching hospitals is 31 percent less than other comparable public and private hospitals in the state and 45 percent less than University of California hospitals, according to FY 2002-03 hospital financial data from the Office of Statewide Health Planning and Development. Since 1995, DHS has:

- ▶ Reduced the number of full-time employees per hospital visit by 15 percent.
- ▶ Improved clinical efficiency through implementation of targeted disease management programs and standardized treatment protocols:
  - In 2002, the DHS Clinical Resource Management Program was the first disease management program to be certified and receive the Award of Distinction from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).
  - More than 10,000 DHS patients have received care driven by evidence-based pathway guidelines.
- ▶ Reduced expenditures by \$70-80 million annually through group purchasing of drugs and other supplies and by changing work processes and staffing patterns. Costs have been reduced by an additional \$38 million annually (on average) during the waiver extension through standardizing, centralizing, and outsourcing services.



Source: Los Angeles County Department of Health Services, MIS Patient Workload and Financial History Reports for fiscal years 1994-95 and 2004-05; EMS trauma data.



## GOAL 4: INTEGRATE THE SYSTEM OF CARE

***Coordination of care has improved across Los Angeles County health care facilities and between public and private safety net providers.***

### Waiver Accomplishments Related to System Integration: 1995-2005

#### Improved patient flow and community linkages

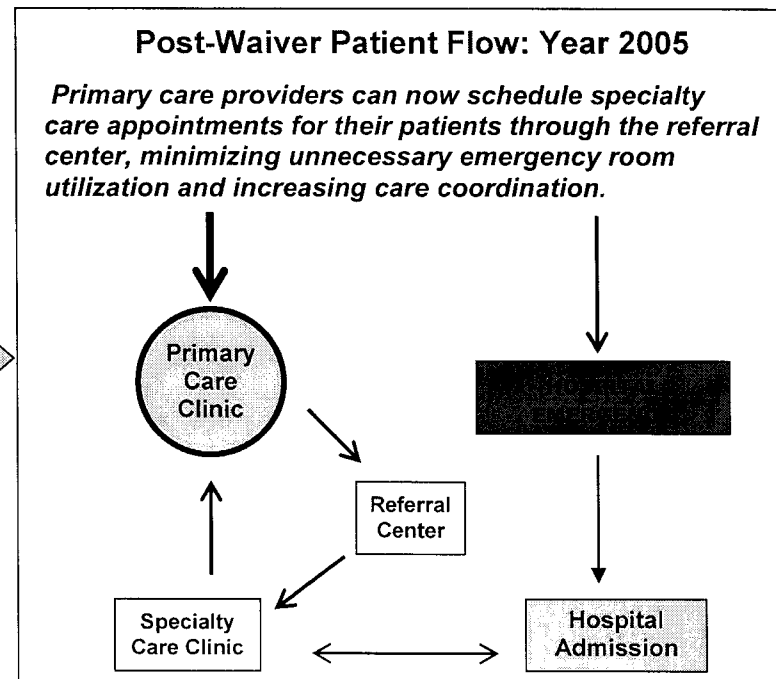
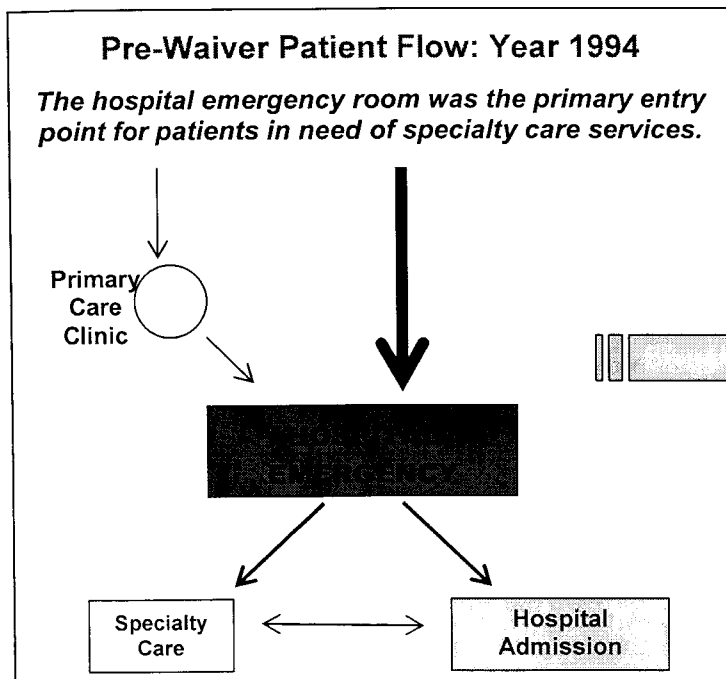
In the past 10 years, DHS has:

- ▶ Established five specialty care referral centers to coordinate care for patients seen at DHS and PPP clinics. These referrals will soon be processed through a new web-based system that will allow providers to schedule and track appointments online.
- ▶ Shifted certain specialty care hospital procedures to community-based comprehensive health centers operated by DHS.
- ▶ Co-located public health services with PPP or DHS-operated primary care clinics.

#### Increased system-wide planning

Since 1995, DHS has:

- ▶ Developed a more centralized data collection system, which has improved system-wide planning and management across DHS.
- ▶ Improved community-based planning through developing regional planning groups in most service planning areas (SPAs) and distributing ambulatory care dollars based on the relative need for services in the area.



#### **CHALLENGES:**

Rudimentary and non-standardized facility information systems

Demand for both hospital and community-based services greatly exceeds supply